

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF EAST KENTUCKY)	
POWER COOPERATIVE, INC. OF A)	CASE NO.
REVISION TO ITS WHOLESALE)	9582
ELECTRIC POWER TARIFF)	

O R D E R

BACKGROUND

On May 15, 1986, East Kentucky Power Cooperative, Inc., ("EKPC") filed two optional schedules to its wholesale tariff, Schedule B and Schedule C. EKPC proposed an effective date of June 5, 1986, for the schedules. The Commission suspended the effective date of the tariff revisions until November 5, 1986. Prior to hearing there had been one request for information by the Commission staff and a response by EKPC.

The proposed tariff revisions are applicable to industrial customers, both existing and future. According to EKPC's application, it has two purposes in making this filing. First, EKPC and its member cooperatives want to assist the Kentucky Commerce Cabinet in locating prospective industrial customers in Kentucky. Second, this proposal is part of EKPC's efforts of meeting its goal to raise its annual load factor from 45 percent to 60 percent by the early 1990s.

Schedule B as originally proposed by EKPC was applicable to load centers of 10,000 kilowatts or greater per month. The demand

rate applied in Schedule B was considerably less than the demand rate in EKPC current wholesale power rate. However a ratchet provision was used to determine the billing demand for each month. The ratchet provision allows that if the contract demand is surpassed in any month, then this demand level becomes the basis for the determination of billing demand for the current month and for the succeeding 11 months. The energy rates in Schedule B were the same as the energy rates in EKPC's wholesale tariff.

Schedule C as originally proposed by EKPC was applicable to load centers or to a portion of the load on a load center where the contract demand has a minimum level of 1,000 kilowatts and a maximum level of 9,999 kilowatts. A demand rate less than the demand rate in EKPC's wholesale tariff was applied and a ratchet provision was again used. Schedule C has the same energy rate as EKPC's wholesale tariff; however there is a minimum usage level for energy of 425 hours per kilowatt of billing demand. Also Schedule C requires two "two-party" contracts. One contract is between EKPC and the member distribution cooperative and the second contract is between the distribution cooperative and the end user.

Subsequent to EKPC's filing, three of its member cooperatives have filed industrial tariffs based on the EKPC optional schedules. The cooperatives that have filed tariffs are Shelby Rural Electric Cooperative Corporation, Owen County Rural Electric Cooperative Corporation and Jackson County Rural Electric Cooperative Corporation.

In an Order of September 2, 1986, the Commission identified several concerns that had arisen after a review of EKPC's proposed Schedule B and Schedule C. These concerns included the potential revenue loss to EKPC, the possible windfall increase in net income to member cooperatives which had loads that qualified for Schedule B, identification of long term consequences from increased load on the EKPC System, the indefinite continuation of the lowered electric rates and the appropriateness of developing rates for the express purpose of promoting economic development. The Commission's Order requested EKPC to respond to these concerns. Also the 18 member cooperatives of EKPC were made party to the case and requested to respond to the Commission's concerns. A hearing was scheduled for September 24, 1986, at the Commission's offices.

On September 19, 1986, EKPC filed its responses to the Commission's concerns. The member distribution cooperatives responded that EKPC's responses represented their views also. Also on September 19, 1986, EKPC filed a motion to amend its notice as filed May 15, 1986. EKPC's motion was to withdraw the proposed Schedule B and modify Schedule C by eliminating the upper limit on contract demand of 9,999 kilowatts. EKPC proposed these revisions to substantially reduce the potential revenue loss to EKPC and to eliminate the possible windfall increase in net income to the member distribution cooperatives. Mt. Vernon Plastics Corporation filed a motion for full intervention which was sustained by the Commission.

A hearing was held on September 24, 1986, at the Commission's offices. Donald Norris, President and General Manager of EKPC, and James Adkins, Manager of Rates, appeared as witnesses and were cross-examined. All requests for information have been responded to and the record is complete.

EKPC'S REVISED TARIFF PROPOSAL

Based upon its review of the record, the Commission concurs that EKPC's revised Schedule C and the withdrawal of Schedule B does reduce the potential revenue loss to EKPC and eliminate the possible windfall increase in net income to the member distribution cooperatives. However, the Commission is concerned about how the member distribution cooperative will pass through the rates under Schedule C to the final consumer. At the hearing EKPC indicated that it believed the cooperatives should have the prerogative to develop retail rates to pass through the wholesale rates. However, EKPC did advise its member cooperatives. EKPC's advice generally was to set the retail demand equal to the wholesale demand rate and then include an adder to the energy rate a few mills above the wholesale energy rate. The magnitude of the adder would vary depending upon the size of the industrial load added. The recommended energy adder ranged from 8 mills for the smaller industrial loads to 2 mills for larger loads. Following this advice could result in a loss of net income to a member cooperative which has existing customers who qualify for Schedule C. This loss would ultimately be recovered from the other ratepayers.

Of the three distribution cooperatives which have already filed retail tariffs to pass through EKPC's wholesale rates, two have followed EKPC's advice and one has not. The one which has not followed the advice instead proposed a retail tariff so as to maintain a neutral effect on its net income. Thus the cooperative is not adversely affected by this proposal. The Commission prefers this methodology which maintains the same net income for the member cooperatives.

Since the tariffs used by the member distribution cooperatives to implement EKPC's wholesale power rate Schedule C must be approved by the Commission, the filings will be carefully reviewed to assure the ratepayers that implementation will not have an adverse impact on them. If the member cooperatives desire to have their tariff filing reviewed in a timely manner, they should provide at the time the tariff is filed all workpapers which explain in detail how the rates were determined and provide documentation of the impact on the cooperative's net income. If the information is not provided, the delays associated with exchanging the data will result.

Further, the Commission believes acceptance of EKPC revised Schedule C is a departure from the Commission's traditional ratemaking objectives. Thus it is appropriate to monitor the impact of this tariff and the implementation of the retail tariffs carefully. Therefore, EKPC should provide a report to the Commission which documents the implementation of Schedule C. The report should be filed one year from the date of this Order. The report should list the number of customers which are served

through the provisions of Schedule C, identify whether they are existing, expanding or new customers, the associated load of these customers and the estimated effect on EKPC's revenue and net income.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The wholesale power rate Schedule B and Schedule C filed May 15, 1986, are unreasonable and unjust and should be denied.

2. The wholesale power rate Schedule C as amended on September 19, 1986, is reasonable and just and should be accepted. EKPC should file with the Commission a signed copy of the revised Schedule C within 10 days of this Order.

3. EKPC should file with the Commission one year from the date of this Order a report which provides an update on the implementation of Schedule C.

IT IS THEREFORE ORDERED that:

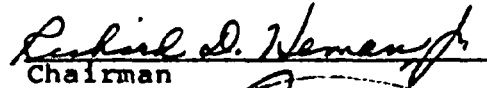
1. EKPC's wholesale power rate Schedule B and Schedule C filed May 15, 1986, have been found to be unreasonable and unjust and are denied.

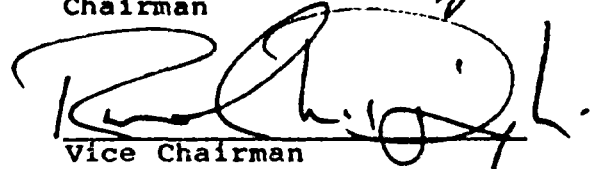
2. EKPC's wholesale power rate Schedule C as amended on September 19, 1986, is reasonable and just and is accepted. EKPC shall file with the Commission a signed copy of the revised Schedule C within 10 days of the date of this Order.

3. EKPC shall file with the Commission one year from the date of this Order a report which provides an update on the implementation of Schedule C.

Done at Frankfort, Kentucky, this 16th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director